

AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO FLASH REPORT

FASB



SUBJECT

FASB ISSUES TRANSITION PRACTICAL EXPEDIENT AND CLARIFIES THE APPLICATION OF TOPIC 842 FOR LAND EASEMENTS

SUMMARY

The FASB recently issued ASU 2018-01¹ to ease the adoption of ASU 2016-02, *Leases* (*Topic 842*), for entities with land easements that exist or expire before an entity's adoption of Topic 842. The ASU will benefit entities that do not account for those land easements as leases under existing GAAP (Topic 840). The new amendment is available [here](#). Its effective date and transition requirements are the same as ASU 2016-02, i.e., beginning in 2019 for public business entities.

DETAILS

Background

Currently, there is diversity in practice in the accounting for land easements². Entities typically account for their land easements by applying Topic 350, *Intangibles—Goodwill and Other*, Topic 360, *Property, Plant, and Equipment*, or Topic 840, *Leases*. Entities that do not currently account for their land easements under Topic 840 indicated that evaluating all existing or expired land easements in connection with the adoption of Topic 842 would be costly and complex. They note that there will be limited benefit as many of their land easements are already on the balance sheet since they are prepaid, and many of them would not meet the definition of a lease under Topic 842.

Main Provisions

The amendments are intended to reduce the cost and complexity associated with assessing whether all existing and expired land easements meet the definition of a lease. They allow entities who previously did not account for land easements under Topic 840 to elect a transition practical expedient to not assess those land easements under Topic 842.

CONTACT

ANGELA NEWELL

National Assurance Partner
214-689-5669 / ajnewell@bdo.com

JIN KOO

National Assurance Partner
214 243-2941 / jkoo@bdo.com

ADAM BROWN

National Director of Accounting
214-665-0673 / abrown@bdo.com

1 Land Easement Practical Expedient for Transition to Topic 842

2 Land easements (also commonly referred to as rights of way) represent the right to use, access, or cross another entity's land for a specified purpose.

Once an entity adopts Topic 842, it must apply that Topic prospectively to all new or modified land easements, and may only apply the guidance in Example 10 of ASC 350-30 after concluding that a land easement does not meet the definition of a lease in Topic 842. An entity that currently accounts for land easements under Topic 840 may not elect this practical expedient.

EFFECTIVE DATE AND TRANSITION

The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in ASU 2016-02, which takes effect in 2019 for public business entities and 2020 for all other entities, but may be early adopted. An entity that early adopted Topic 842 should apply the amendments in this Update upon issuance.

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